President Obama's Record on Youth Employment

In the 2008 presidential election, President Obama received overwhelming support from young voters. The past four years has produced the following results and prospects for young Americans:

- Among 16 to 24-year-olds, the unemployment rate is 15.5%. After adjusting for the decline in the labor force participation rate (LFPR), i.e. individuals leaving the labor force, the unemployment rate rises to 20 percent.

- Student debt now totals nearly $1 trillion dollars, more than all of American credit card debt. Tuition increases in public universities has been growing at 5.6% faster than inflation.

- Four straight years of deficits in excess of $1 trillion deficits has pushed the debt to $16 trillion, larger than the entire U.S. economy. President Obama's budget would add another $11 trillion to the debt over the next decade. It is America's youth and future generations that will inherit this debt that will weigh down the economy, job growth, and wages in the near term and invite a debt crisis, an austerity program, and tax increases in the long term.

Since the 2008 financial crisis, job prospects for America's youth have steadily declined. The past four years have continued to see the official youth unemployment rate hover between 16 and 20 percent—more than twice as high as the population as a whole. As their employment outlook has become bleaker, prospective workers within the 16- to 24-year-old age demographic have simply stopped looking for work. This is seen in the sharp increase in the percent of youths who have left the labor force, meaning they are both unemployed and not even looking for work.

The consequences of high youth unemployment are far reaching and can last for decades. Work experience which young people gain while working as teenagers or recent college graduates is invaluable; and the inability to gain this early work experience has very real lifelong effects. Not only are these individuals not acquiring the skills to advance in the workplace, they are foregoing months (years in some cases) of income. An additional negative, long-term consequence of inexperience is that it likely assures a lower starting salary once they do enter the workforce. Studies show that high unemployment has large effects on initial earnings which lead to significantly lower lifetime earnings.[12] Any way the data are sliced, most of the affected

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[1] Kahn, Lisa B., "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy," draft paper. August 13, 2009.

youth population will make substantially less over their lifetime due to their initial period of unemployment upon entry into the labor force.

For this reason, the unemployment rate is generally seen as a good proxy for lifetime earnings. However, the unemployment rate alone does not fully portray how well the labor market is functioning. The LFPR and its month-over-month changes must be taken into account to give the accurate magnitude of true unemployment.

The civilian labor force in any given month consists of anyone who has received a minimum of one paycheck during that month, as well as unemployed persons who are actively looking for work. This is the total which the Bureau of Labor Statistics uses to calculate unemployment (unemployed persons actively seeking work, divided by the civilian labor force). However, this calculation fails to give the true status of nationwide unemployment because it does not take into account the enormous number of people who have left the labor force and are not actively looking for work because they are discouraged about finding a job. If the unemployment rate calculation included these people, unemployment would look much worse than the already poor 7.8 percent.

A simple hypothetical example illustrates how this dynamic works. If 100 million workers are in the civilian labor force and 20 million were unemployed, the unemployment rate would be 20 percent. In the following month, 10 million unemployed persons become so discouraged that they stop looking for work. Since you must be actively looking for work to be considered part of the labor force as well as considered unemployed, the labor force drops to 90 million while the number of unemployed drops to 10 million. The new unemployment rate would fall from 20 to 11 percent, but this would be an illusion since 10 million stopped looking for work, leaving the number of unemployed persons unchanged.

The August, 2012 jobs report demonstrates how this phenomenon occurs in the real world. The economy added 96,000 jobs in August and the unemployment rate fell from 8.3 to 8.1 percent. However, the labor force declined by 350,000, many of whom became discouraged and stopped looking for work, and were therefore left out of the calculation.[3] In fact, if the labor force participation rate (the percent of the civilian labor force employed or actively seeking work) were the same as it had been one year ago, unemployment would currently be 9.1 percent—a full percentage point higher than officially reported.[4] Thus, the drop in the LFPR explains a full percentage point of the improvement in the unemployment rate over the past year. And though the September numbers looked better in a superficial sense—as unemployment fell

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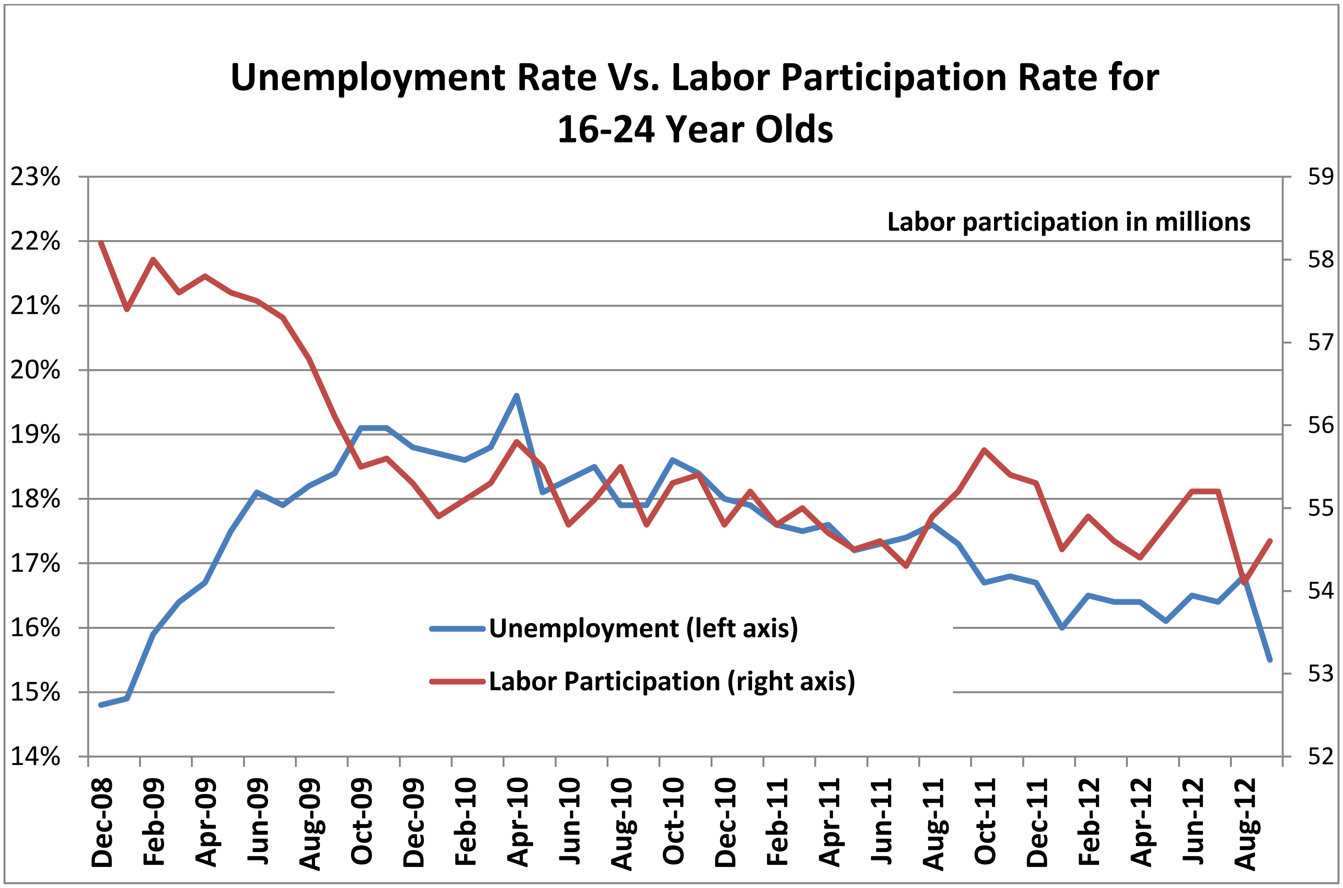
[2] Oreopoulos, Philip, Till von Wachter, and Andrew Heisz, "The Short- and Logan-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates. NBER Working Paper No. 12159. April 2006.

[3] Bureau of Labor Statistics, "Employment Situation Summary." September 7, 2012.

[4] House Budget Committee staff calculation based on: Bureau of Labor Statistics data.

from 8.1 to 7.8 percent—much of the change can be explained by the increase of 600,000 in what are classified as involuntary part-time (mostly temporary) employed persons.

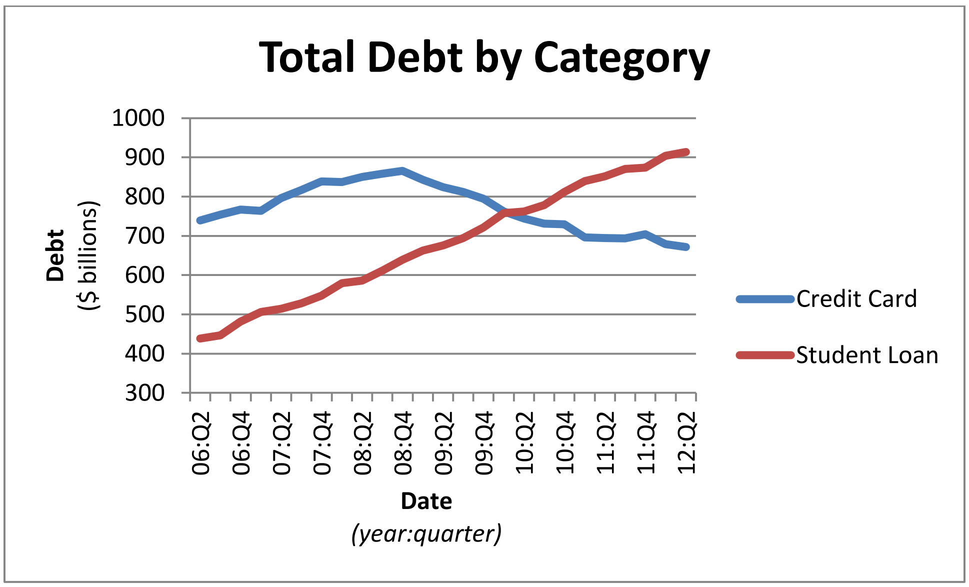
The chart below plots the unemployment and labor force participation rate among 16- to 21-year-olds since 2008, showing that the official unemployment rate of this segment stands at 15.5 percent.



However, including all unemployed persons in the potential labor force shows that true unemployment in this demographic is actually closer to 20 percent—nearly 30 percent higher than the official rate.[5] While the LFPR has small spikes, the trend over the last four years is clearly negative. An increasing number of qualified youth, discouraged by the lack of job oppurtunities brought on by the recession—and sustained by anemic economic growth—have stopped looking for work for four straight years. In fact, over half of young college graduates are either jobless or underemployed.[6]

[5] House Budget Committee staff calculation based on: Bureau of Labor Statistics data.
[6] Associated Press, "1 in 2 New Graduates Are Jobless or Underemployed." April 23, 2012. http://m.yahoo.com/w/legobpengine/news/1-2-graduates-jobless-underemployed-140300522.html?orig_host_hdr=news.yahoo.com&.intl=US&.lang=en-US. Accessed October 4, 2012.

Most of the college graduates in this group simply cannot afford to stay out of work for long. Graduates and others who have borrowed to fund their education now owe almost $1 trillion in student loans—recently surpassing what the entire population owes in credit card debt.[7] Student loan debt is fifty percent higher than it was in 2008, while credit card debt has declined 17 percent during the same period, from $1 trillion to $850 billion.[8] Graduates of the class of 2011 who had taken on debt to finance tuition owed an average of $26,600 upon graduation. Moreover, debt has been increasing by five percent per year recently, conspicuously mirroring the increase of tuition costs..[9][10]Even though borrowers may not have to make payments while unemployed or underemployed due to generous grace periods, interest on their debt and thus what they must pay back, increases daily. This piles a decrease of lifetime disposable income on lifetime earnings that are already depressed by graduates' initial unemployment.

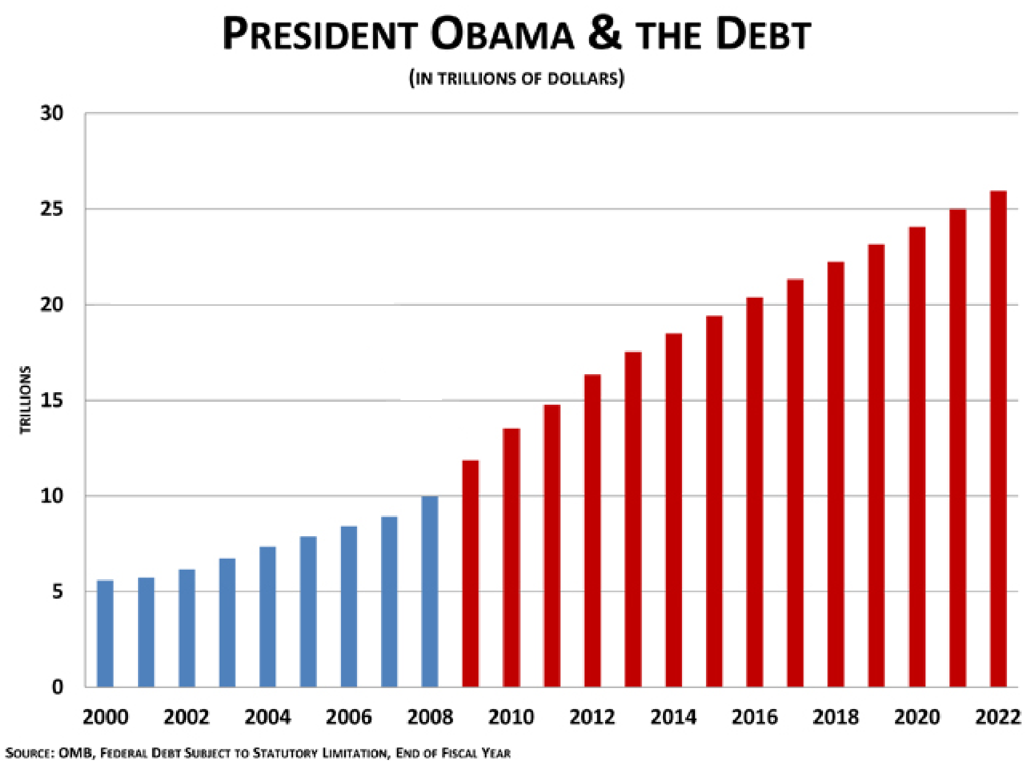


Remarkably, even larger financial hardships may lie ahead for this generation due to mounting national debt. The total debt broke the $16 trillion mark in August, eclipsing the size of the entire U.S. economy. An economic analysis lookng at the historical record and experience of other countries concluded that one debt reaches 90 percent of GDP or higher it

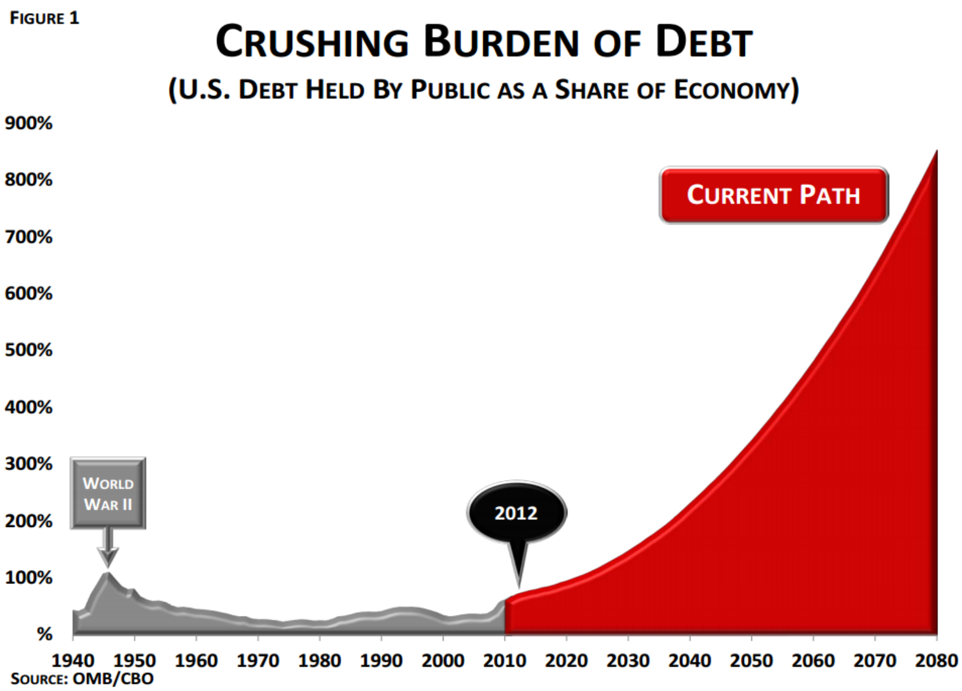
[7] Hechinger, John and Janet Lorin, "Student-Loan Default Rates Rise as Federal Scrutiny Grows," http://www.businessweek.com/news/2012-09-28/student-loan-defaults-soar-as-government-scrutiny-grow. September 29, 2012.
[8] Associated Press, "US Consumers Cut Credit Card Use for 2nd Month." http://www.foxnews.com/us/2012/09/10/us-consumers-cut-credit-card-use-for-2nd-month/. September 10, 2012.
[9] The Institute for college Access & Success, "Student Debt and the Class of 2011," The Project on Student Debt. October 2012.
[10] Number calculated accounting for inflation.

leads to slower economic growth[11] and makes Greece-like austerity measures certain should the issue be left unadressed.

Since being elected, this total debt has risen by $5 trillion to date and is projected to rise another $10 trillion over the next decade, according to the President's own budget.[12] And absent actions to bring spending under control, the debt further soars out of control over the long-run.



[11] Reinhart, Carmen M. and Kenneth S. Rogoff,"A Decade of Debt." NBER Working Paper No. 16827. February 2011.
[12] Office of Management and Budget, "Fiscal Year 2013 Budget of the U.S. Government, table S-15, page 246: http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/tables.pdf.



Repeated studies have found that without serious solutions to address this explosion, the country's debt crisis would almost certainly be addressed by a mixture of steep austerity measures and a rise in general tax rates.[13][14]

If current policies are maintained, we are inviting a debt crisis and today's youth will bear the brunt of the spending cuts that hit the least fortunate first and hardest, as well as the tax increases that will be imposed indiscriminately to satisfy the Nation's creditors. The President's legacy thus far among this demographic has been high unemployment, ever-increasing student debt, and staggering national debt, each of which will result in drastically hurting the financial prospects of the very population that helped put him into office.

Prepared by: David S. Logan, Economist and Budget Analyst, House Budget Committee Majority Staff, October 18, 2012

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[13] Ben Broadbent and Kevin Daly, "Limiting the Fall-Out from Fiscal Adjustment," *Goldman Sachs Global Economics Paper No: 195*. April 2010.

[14] Sebastian Hauptmeir, Martin Heipertz and Ludger Schuknecht, "Expenditure Reform In Industrialised Countries: A Case Study Approach," *European Central Bank*, Working Paper No. 634. May 2006.